

**REBUTTAL TESTIMONY OF**  
**KENNETH R. JACKSON**  
**ON BEHALF OF**  
**SOUTH CAROLINA ELECTRIC & GAS COMPANY**  
**DOCKET NO. 2009-261-E**

1   **Q.    ARE YOU THE SAME KENNETH R. JACKSON THAT HAS PREFILED**  
2       **DIRECT TESTIMONY IN THIS CASE?**

3    A.       Yes, I am.

4  
5   **Q.    WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN THIS**  
6       **PROCEEDING?**

7    A.       The purpose of my testimony is to respond to the direct testimony filed by  
8       certain witnesses for CMC Steel South Carolina (“CMC Steel”), the South  
9       Carolina Energy Users Committee (“SCEUC”), the South Carolina Coastal  
10      Conservation League (“SCCCL”) and the South Carolina Office of Regulatory  
11      Staff (“ORS”). In general, I respond to CMC Steel Witness Dennis W. Goins’  
12      testimony addressing the amortization period for costs associated with DSM  
13      programs, recommending a limited recovery period for lost net margin revenue,  
14      and opposing the proposed ROE incentive. With respect to SCEUC Witness  
15      Kevin W. O’Donnell, I address his recommendations with respect to the proposed  
16      ROE incentive. I also respond to the testimony of SCCCL Witnesses William

1 Steinhurst and Thomas Lyle regarding the allocation of DSM program costs,  
2 expenses for corporate image advertising, lost net margin revenue, a monitoring,  
3 verification and evaluation process, the establishment of goals for DSM programs  
4 and a negative ROE adjustment. Finally, I address ORS Witness Randy Gunn's  
5 testimony regarding the proposed program year and determination of the  
6 Company's lost net margin revenue.

7  
8 **Q. WITH RESPECT TO THE TESTIMONY OF DR. GOINS, PLEASE**  
9 **ADDRESS HIS RECOMMENDATION THAT THE COMMISSION**  
10 **SHOULD APPROVE A TEN-YEAR AMORTIZATION PERIOD.**

11 A. Beginning on page 15 of his testimony, Dr. Goins recommends that the  
12 Commission should approve a ten-year amortization period over which SCE&G  
13 should be allowed to recover its costs of implementing the DSM programs instead  
14 of the five-year period as proposed by the Company. Although the annual costs  
15 borne by the customer would initially be lower due to the longer amortization  
16 period, an extended ten-year period would ultimately result in additional costs to  
17 the customer. South Carolina law and Commission precedent permit electric  
18 utilities to recover the carrying costs of the amortized amount of their DSM  
19 program investments. If the Company is required to recover its incurred costs  
20 over a longer period of time, the total amount of carrying costs passed through to  
21 the customer will be substantially more. Investors perceive regulatory assets to  
22 have higher risks than investments in physical assets that are serving customers on

1 an on-going basis. In sum, the Company believes that its five-year amortization  
2 period balances timely recovery of its costs over a reasonable period of time and  
3 reduces the ultimate cost of the program to the customer. Moreover, as stated in  
4 my direct testimony, a five-year period for calculating the amortization of DSM  
5 costs was previously approved by the Commission for the Company in Order No.  
6 96-15, in Docket No. 95-1000-E.

7  
8 **Q. HOW DOES SCE&G RESPOND TO DR. GOINS' SUGGESTION ON**  
9 **PAGE 7 OF HIS TESTIMONY THAT THE COMMISSION SHOULD**  
10 **LIMIT THE RECOVERY PERIOD FOR LOST NET MARGIN REVENUE**  
11 **TO THE SHORTER OF THREE YEARS OR UNTIL SCE&G'S BASE**  
12 **RATES ARE ADJUSTED IN A GENERAL RATE CASE?**

13 A. SCE&G believes that this proposal would substantially increase the  
14 Company's risks in providing DSM programs and would not comply with the  
15 requirements of Section 58-37-20. Effective DSM programs will result in lost  
16 revenue due to reduced sales until rates are adjusted in a subsequent rate  
17 proceeding. If a rate proceeding is not filed every three years, then the Company's  
18 net revenue will be reduced by the amount of revenue lost to DSM investments  
19 made three years or more earlier. Precluding the Company from recovering these  
20 lost net margin revenues would be contrary to the express language of Section 58-  
21 37-20 which requires the Commission to establish rates and charges that ensure  
22 that the Company's net income after implementation of its DSM programs is at

1 least as high as the net income would have been if the programs had not been  
2 implemented.

3  
4 **Q. DR. GOINS SUGGESTS THAT SCE&G'S PROPOSED ROE INCENTIVE**  
5 **IS DESIGNED FOR THE BENEFIT OF ITS SHAREHOLDERS AT THE**  
6 **EXPENSE OF CUSTOMERS. DOES THE COMPANY AGREE WITH**  
7 **THIS STATEMENT?**

8 A. No, it does not. SCE&G's goal in this process is to implement DSM  
9 programs that are designed to be effective in reducing energy demand and  
10 consumption on its system. The core concern of the Company in selecting these  
11 programs is that they pass the Total Resource Cost test, which is discussed more  
12 fully by Company Witness Pickles in his direct testimony. In order to accomplish  
13 this goal, the Company is only seeking to recover the costs of the programs and  
14 lost net margin revenue along with a modest incentive. This incentive is  
15 reasonable and fairly balances the interest of customers in energy savings and the  
16 interest of the Company in meeting the reasonable expectations of investors in  
17 light of increased risks from DSM investments.

1 **Q. MR. O'DONNELL ALSO SUGGESTS THAT THE PROPOSED**  
2 **INCENTIVE SHOULD BE LOWER BECAUSE A FIVE-YEAR**  
3 **AMORTIZATION PERIOD AS RECOMMENDED BY THE COMPANY**  
4 **WOULD REDUCE ITS RISKS. DO YOU AGREE?**

5 A. No, I do not agree. SCE&G will still be subjected to additional risk by  
6 implementing DSM programs rather than building additional generation facilities.  
7 Generally, when a utility makes a prudent investment in a physical asset, the  
8 investor has a reasonable assurance that the Company will be allowed the  
9 opportunity to earn a return on that investment over the asset's useful life. By  
10 contrast, a DSM investment results only in the creation of a new entry in  
11 SCE&G's accounting records in the form of a regulatory asset. Investors consider  
12 such assets inherently more risky than investments in physical facilities that are  
13 serving customers over extended periods of time.

14  
15 **Q. PLEASE ADDRESS DR. STEINHURST'S SUGGESTION THAT THE**  
16 **COMPANY'S PROPOSED ALLOCATION METHOD**  
17 **INAPPROPRIATELY ALLOCATES DSM COSTS AMONG CUSTOMER**  
18 **CLASSES.**

19 A. On page 19 of his testimony, Dr. Steinhurst suggests that DSM delivers  
20 system-wide benefits that are enjoyed by all customers in proportion to their  
21 power use and that class cost allocation should be conducted in a similar manner  
22 to that used for other resources acquired to serve load. While SCE&G agrees that

1 DSM programs deliver system-wide benefits, the Commission has previously  
2 recognized the reasonableness of directly assigning operating costs to the customer  
3 class causing the costs when identifiable on the books and records of the  
4 Company. Hence, the responsibility for costs should be assigned to the customer  
5 classes that cause the cost when and where possible. Compared to Dr. Steinhurst's  
6 suggestion, direct assignment results in a more precise match of DSM cost by  
7 customer class with the rate benefits received by customer class. The Commission  
8 has approved this methodology of direct assignment in previous cost of service  
9 studies submitted to the Commission by SCE&G. Therefore, the Company  
10 believes that the use in this proceeding of direct assignment of cost to the  
11 appropriate customer class is fully consistent with the practices authorized by the  
12 Commission.

13  
14 **Q. PLEASE COMMENT ON DR. STEINHURST'S RECOMMENDATION**  
15 **THAT THE COMMISSION DISALLOW RECOVERY OF EXPENSES**  
16 **FOR CORPORATE IMAGE ADVERTISING.**

17 A. I would simply respond that the Company has not proposed the inclusion of  
18 any corporate advertising expenses in this proceeding and does not intend to do so  
19 in the future.

1 **Q. DR. STEINHURST ALSO STATES ON PAGE 21 OF HIS TESTIMONY**  
2 **THAT THE COMPANY'S DETERMINATION OF MARGIN REVENUE**  
3 **OVERSTATES THE MAGNITUDE OF LOST REVENUE TO THE**  
4 **COMPANY DUE TO DSM SAVINGS. DO YOU AGREE?**

5 A. No, I do not agree. Dr. Steinhurst suggests that the Company's calculation  
6 of net margin revenue omits any correction for off-system sales, sales for resale,  
7 reduced purchases of energy and capacity or transmission by others or other  
8 reduced expenses. However, when SCE&G performs a cost of service study, the  
9 Company includes these sources of revenue as an off-set to the revenue  
10 requirement on which retail rates are set. Thus, the Company's current rates,  
11 which are the basis of the lost revenue calculation, reflect a credit for these sales  
12 and as a result, the revenues from off-system sales and the other benefits  
13 mentioned above are embedded in the lost revenue calculation. It also should be  
14 noted these sales are highly variable and uncertain and there is no reliable basis for  
15 projecting increased levels of future sales in SCE&G's calculation of net margin  
16 revenue in the current DSM filing. Therefore, the net margin revenue proposed by  
17 the Company in this proceeding appropriately reflects the reductions  
18 recommended by Dr. Steinhurst.

1 **Q. HOW DO YOU RESPOND TO DR. STEINHURST’S SUGGESTION, ON**  
2 **PAGE 22 OF HIS TESTIMONY, THAT THE COMPANY’S LOST NET**  
3 **MARGIN REVENUE RECOVERY MECHANISM DOES NOT INCLUDE**  
4 **ADEQUATE MEASUREMENT AND VERIFICATION OF DSM**  
5 **SAVINGS?**

6 A. I disagree. SCE&G’s cost recovery plan relies on the savings impacts  
7 specified in the South Carolina Measures Library Database (“Measures  
8 Database”). SCE&G partnered with Duke Energy, Progress Energy and Santee  
9 Cooper to have this database created by experts in the field specifically for South  
10 Carolina for the purpose of having professional, independent savings estimates to  
11 support the annual cost recovery process. SCE&G believes that the use of the  
12 Measures Database will effectively accomplish the objective of monitoring,  
13 verifying and evaluating DSM savings. Moreover, the Company intends to update  
14 and validate the DSM savings information in this database as part of its ongoing  
15 monitoring and verification initiatives. In summary, SCE&G believes that relying  
16 on estimates from the Measures Database is reasonable and appropriate for  
17 implementation of its portfolio of DSM programs as well as reasonable and  
18 appropriate for use in the annual cost recovery and auditing process.



1 **Q. HOW DO YOU RESPOND TO THE SUGGESTION THAT THE**  
2 **COMMISSION SHOULD SET GOALS FOR DSM PROGRAMS AT THIS**  
3 **TIME?**

4 A. I agree with the logic presented in Order No. 2009-373, p. 20-21:

5 Even then, as testified to by [Progress Energy Witness] Bateman, the  
6 results of a market potential study alone are not adequate to create valid  
7 goals, and additional factors must be known before target goals can be  
8 established with any level of precision. For example, the utility must gain  
9 experience with the DSM/EE program implementation process and  
10 determine customer acceptance rates. Bateman explained that if  
11 appropriate, the issue of performance targets can be revisited in future  
12 DSM/EE cost-recovery proceedings after these critical factors are known....  
13  
14

15 I believe the finding of the Commission in Order No. 2009-373 is clear and  
16 unequivocal. It is not possible to establish performance goals with any level of  
17 precision at this time. If necessary and appropriate, goals can be considered in a  
18 future proceeding.  
19

20 **Q. HOW DOES THE COMPANY RESPOND TO DR. STEINHURST'S**  
21 **RECOMMENDATION THAT SCE&G BE SUBJECTED TO A NEGATIVE**  
22 **ROE ADJUSTMENT IF ITS PROGRAMS DO NOT ACHIEVE CERTAIN**  
23 **GOALS?**

24 A. Dr. Steinhurst suggests that SCE&G be punished for not meeting pre-  
25 established goals by having its ROE on DSM investment reduced below the level  
26 the Commission has determined to be reasonable and compensatory. SCE&G

1 believes that Dr. Steinhurst's suggestion of a punitive ROE adjustment is  
2 unreasonable and inappropriate. Further, this recommendation is contrary to the  
3 statutory requirements of Section 58-37-20. Dr. Steinhurst acknowledges that the  
4 statute requires incentives for energy suppliers to invest in DSM programs and that  
5 an ROE adder can be an effective incentive mechanism. Yet, Dr. Steinhurst  
6 proposes to penalize the Company if customers do not participate in DSM  
7 programs, despite SCE&G's willingness to advance energy savings initiatives.  
8 Furthermore, notwithstanding SCE&G's commitment to cost-effective energy  
9 efficiency programs and to ensure that customers are aware of these opportunities,  
10 the customer must decide whether or not he or she will take advantage of the  
11 Company's offerings. Consequently, the relationship between incentives provided  
12 through DSM programs and actual savings achieved is often beyond the  
13 Company's control, as customers determine their participation in DSM programs  
14 and their energy usage. The ultimate level of energy savings which may be  
15 realized from these programs is, therefore, unknown at this time. Thus,  
16 establishing an ROE penalty for failing to meet goals which cannot reasonably be  
17 ascertained at this time would be unreasonable, unfair and contrary to the statutory  
18 requirements that DSM investment be treated in a way that is at least as attractive  
19 as investment in generation assets.

1   **Q.    ON PAGE 5 OF HIS TESTIMONY, MR. GUNN SUGGESTS THAT THE**  
2       **PROPOSED PROGRAM YEAR SHOULD CONFORM TO A CALENDAR**  
3       **OR FISCAL YEAR AS OPPOSED TO CONCLUDING IN NOVEMBER OF**  
4       **EACH YEAR. PLEASE DISCUSS THIS RECOMMENDATION.**

5    A.       The Company believes concluding the reporting period in November of  
6       each year is preferable because it provides the public, the Commission and ORS  
7       sufficient time to review the Company's annual filing. Going forward, the  
8       Company proposes adjusting the rate rider with the first billing cycle of May of  
9       each year. The intent behind this annual implementation date is to correspond to  
10      the Company's annual fuel filing, such that the annual adjustment to the fuel factor  
11      and the DSM rate rider will become effective in the same billing cycle. The  
12      Company believes a shared effective date is preferable in that it will reduce  
13      customer confusion by minimizing the number of adjustments implemented each  
14      year. In order to provide at least three months after filing to allow for public  
15      comment and for the Commission's and ORS's review, the Company, therefore,  
16      proposes to make its annual filing in January of each year. Due to the time  
17      required for proper accounting, a January filing date is not practicable without  
18      closing the review period on November 30<sup>th</sup> of each year. We continue to believe  
19      that this timeline and, therefore, the proposed fiscal year of December 1 to  
20      November 30 is the best fiscal period for the Company's accounting and reporting  
21      on its DSM program.

1   **Q.    ON PAGE 17 OF HIS TESTIMONY, MR. GUNN EXPRESSED CONCERN**  
2       **ABOUT THE COMPANY’S DETERMINATION OF ITS LOST MARGIN.**  
3       **DOES THE COMPANY’S LOST MARGIN DETERMINATION ADJUST**  
4       **FOR VARIABLE O&M COSTS AS RECOMMENDED BY MR. GUNN?**

5   A.       Yes it does. As Mr. Gunn states, lost margin revenue is equal to lost  
6       revenue, less fuel costs and less variable O&M costs. In my Exhibit KRJ-1  
7       attached to my direct testimony, references to adjusting for fuel costs include an  
8       adjustment to deduct variable O&M costs such as sulfur-dioxide (“SO<sub>2</sub>”)  
9       allowances, nitrogen-oxide (“NOx”) allowances, lime, limestone and ammonia.  
10      Likewise, the Company has deducted all environmental costs from electric  
11      revenue in the same manner as they are deducted from fuel costs. Therefore, by  
12      adjusting for the Company’s fuel costs in the lost margin revenue calculation,  
13      variable O&M costs have been similarly deducted.

14  
15   **Q.    DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

16   A.       Yes.